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SUBJECT: UKRAINE: DEFMIN HRYTSENKO ON YUSHCHENKO,
YANUKOVYCH, AND THE FIRST 100 DAYS

REF: A. KIEV 3570

¶B. KYIV 4251

¶C. KYIV 4290

Classified By: Ambassador, reason 1.4 (b,d)

¶1. (C) Summary. Defense Minister Hrytsenko told visiting EUR A/S Fried and Ambassador November 16 that President Yushchenko's remote style interfered with his effectiveness, that PM Yanukovych was the most reasonable of the Regions' team in office and that the U.S. was right to seek to work with him, and that the effort by some in Regions to unseat him as Minister to gain control of defense property had failed. Providing a sobering analysis of the first 100 days of the Yanukovych cabinet in office, Hrytsenko said that the level of transparency, accountability, respect for rule of law, and checks and balances had degraded from the previous two orange governments, and in some respects was worse than in the latter Kuchma period. Were he not to be Defense Minister, Hrytsenko said he would lead the NATO public education campaign, which needed to be focused on democratic values, not the military. End Summary.

Yushchenko's style prevents effective leadership

¶2. (C) Hrytsenko, who recently removed all the Orange Revolution pictures which previously had hung for 20 months on the walls of his office, replacing them with standard photos of the Ukrainian military in action, stated that Yushchenko's style and lack of connection to his ministers was a real impediment to effective leadership. The lack of connection is less important now, with Yushchenko effectively reduced to only several ministers, but when there had been serious intra-orange fights in 2005 between Tymoshenko and Poroshenko, Yushchenko's detachment had been debilitating, assessed Hrytsenko.

¶3. (C) As Commander-in-Chief, Yushchenko had only conducted three separate meetings with Hrytsenko in 21 months, not counting group gatherings or visits of foreign officials; in comparison, Kuchma met with Hrytsenko's predecessors one hour weekly. "Yushchenko has no idea what is going on here." On the flip side, Hrytsenko felt he had Yushchenko's full trust and could do whatever was necessary to push reform in the Ministry/Armed Forces.

Yanukovych - most reasonable of Regions

¶4. (C) Hrytsenko assessed Yanukovych as the "most reasonable" of the Regions team in power. He agreed that Yanukovych wanted to be a leader of a sovereign country, not a Kremlin lackey, though questions remained whether Moscow held leverage over Yanukovych, perhaps documents relating to his criminal past. The U.S. was right to seek to work with

Yanukovych and invite him to Washington. Hrytsenko stressed that he had never criticized Yanukovych, noting the only disagreement had been one of values/policy tactics over Yanukovych's MAP related statements at NATO Sept 14 (ref A). Hrytsenko claimed there had been five attempts to push questionable decisions against the law through the cabinet. Hrytsenko had taken on 5-6 other ministers, once for two hours, and another time for an hour and a half; eventually Hrytsenko's position won the day, with Yanukovych's support.

¶15. (C) A Yanukovych-Yushchenko agreement must have saved FM Tarasyuk in the Rada's Nov. 15 review of the performance of Tarasyuk and Hrytsenko, thought Hrytsenko, since the expectation had been that Tarasyuk would be forced out. Yanukovych was seeking to work with Yushchenko, noted Hrytsenko, because he understood that his own ratings would inevitably drop as citizens reacted to the recent 200-300% rise in utility costs. The more authority Yanukovych and Regions accumulated, the more responsibility and blame they would bear. Pre-term elections in the spring of 2007 could not be ruled out, with a potential Constitutional Court gambit in play (ref C).

¶16. (C) Hrytsenko caveated his positive assessment of Yanukovych by noting that Yanukovych also chose the people who were causing problems. How to apportion responsibility/blame between him and his lieutenants was an open question, but Yanukovych knew exactly what was happening. Yanukovych would tell western interlocutors what they wanted to hear. The questions were whether his decisions were in line with those slogans, and whether a democratically elected and chosen leader was acting in the interests of democratic principles (see below).

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Regions' attempt to remove Hrytsenko - greed, not politics

¶17. (C) Hrytsenko believed the high-water mark of efforts to unseat him had passed; "there is no way they will break me; I will never give up." The removal effort, which he claimed was initiated by the circle around DPM/Finance Minister Azarov was only "2 percent" about NATO and policy; it was almost entirely about attempts to gain control of defense property (ref B). When efforts to do so via the cabinet failed "because they were illegal," they resorted to blanketing the Ministry with investigators, and generating politically motivated corruption charges. What was needed was a change in the Prosecutor General (note: Medvedko), who had done absolutely nothing to act against real corruption but was allowing his office to be used as a tool to make politicians vulnerable; that should not be tolerated. Unfortunately, such pressure had become a "real, daily practice." (note: the PGO's office filed corruption charges against Interior Minister Lutsenko, another Yushchenko loyalist, November 14, leading to Lutsenko to respond publicly in similar terms as Hrytsenko did privately).

100 days - significant slippage in governance

¶18. (C) In addition to such pressure brought upon "Orange" Ministers, Hrytsenko provided a sobering, largely negative assessment of governance in the first 100 days of the Yanukovych government, in terms of slippage of key indicators: transparency, accountability, the rule of law, and checks and balances. Certain "closed circles of power" and actions had emerged that were even worse than the standards of the Kuchma era, claimed Hrytsenko; the main focus of the Regions team was for control over property and funds, little else.

¶19. (C) The first such circle was controlled by DPM/Finance Minister Azarov, who to an unprecedented extent now had all

levers of financing under his control: the governmental financial transfers system; customs; tax authority; the Rada Budget Committee (previously always given to the opposition, even under Kuchma); the State Audit Committee; the Rada Accounting Chamber; and even the Prosecutor General's office, "through which means I'm not sure." There was no opportunity for society, opposition MPs, or even other ministers to initiate inquiries or bring pressure for adjustments. In the past, when there were holes in the budget, the PM/government could mandate adjustments to tax receipts. Now, when it was clear there were budget gaps, there were none. For example, the Prosecutor General's inadequate response to President Yushchenko's decree to investigate the manipulation of VAT refunds in August was to analyze the situation on August 1, four days before Yanukovych and Azarov assumed office.

¶10. (C) A second closed decision circle covered fuel and energy. While formally there should be lines from the PM to DPM Kluyev to Energy Minister Boiko and NaftoHaz, Hrytsenko had doubts that Kluyev was in the loop. Certainly it was the case that the President was cut off from relevant information, as was FM Tarasyuk, who had legal obligations vis-a-vis agreements with other countries. Before, other ministers in the cabinet were eventually brought into the picture (note: a reference to the January 2006 gas deal); in the current negotiations for Russian gas, there was no information, and no control. Yanukovych had breached a red line even Kuchma never did when he said publicly that Ukraine might extend the Russian Black Sea Fleet presence beyond ¶2017. Posing a series of rhetorical questions, Hrytsenko asked: was that part of an unwritten deal with Russia for gas? Who recommended Yanukovych say that? And at what price to Ukraine's other national interests?

¶11. (C) A third decision circle involved government property and the State Property Fund (SPF). The SPF established the methodology for valuation of state property; the SPF issued licenses to the 4500 companies to assess real estate; and the 2007 budget gave the SPF a monopoly right to sell property on behalf of the GOU. Past cases like the 2004 Krivoryzhstal privatization showed the danger of a lack of transparency; Hrytsenko claimed that in 2006, the MOD had lost 176 million hryvnia (\$35 million) in sale of MOD property without any return financing to the Armed Forces, as expected.

¶12. (C) Hrytsenko's final example touched on opposition oversight rights in the Rada, which he asserted were now weaker than under Kuchma. In addition to control of the Rada Budget Committee, there was the case of the commission proposed by Tymoshenko to investigate the threefold rise in household gas tariffs, unjustified since Ukrainian-produced gas was meant to cover household use, unconnected to the

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(rising) price of Russian gas. The Rada majority approved the commission, but installed their own person as chair, ensuring a non-investigation. In contrast, even though Kuchma hated many Rada members and had something to worry about concerning the 2000 Gongadze murder, he had let the Rada's Gongadze Commission be led by the opposition.

NATO info campaign - still stillborn

¶13. (C) Hrytsenko said that if he were not Defense Minister, he would lead an effective public education campaign that could bring public support for NATO membership to above 50%. The challenge was akin to selling a candidate (note: Hrytsenko headed the policy shop for Yushchenko's 2004 Presidential Campaign), but it could not be done out of the Ministry of Defense. While Hrytsenko actively gave interviews in Kyiv and in provincial trips, as he had done in Kharkiv earlier November 16, the words of the Defense Ministers simply reinforced old stereotypes that NATO was about armies, as opposed to democratic values. All the ministers in the government, Tarasyuk aside, simply avoided

mention of the word NATO or of the necessary reforms associated with accession which would improve the country and people's lives.

¶14. (U) A/S Fried has cleared this cable.

¶15. (U) Visit Embassy Kyiv's classified website:
www.state.sgov.gov/p/eur/kiev.
Taylor